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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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The Honorable Thaddeus J. Dulski, Chairman
Committee on Post Office and Civil Service
House of Representatives

Dear Mr. Chairman:

This letter summarizes the briefing GAO representatives gave to your Committee and Subcommittee staffs on March 7, 1973, concerning the United States Postal Service's proposed Preferential Mail System (PMS). We have given your staffs copies of the charts used in the briefing and information concerning the planned routing of first-class letter mail under PMS.

In our briefing we presented the information requested on January 9, 1973, by the former chairman of your Subcommittee on Postal Facilities and Mail (see app. I) and certain background information on the proposed PMS. We have not reached any conclusions on, nor are we making any recommendations concerning, the information presented in this report. We informed your staffs, however, that we had another job in process, in which we were examining into the need for the proposed PMS.

BACKGROUND

The proposed PMS is intended to improve mail service and to reduce operating costs. The Postal Service has been studying this system since 1969 and has developed designs for the PMS network and for the mechanized processing equipment referred to as the Letter Mail Code Sort System (LMCSS) to be installed in each processing center. However, the Postal Service has not yet officially approved PMS.

In February 1973, the Postmaster General stated that no decision had been made on the proposed PMS and that a great deal of work had to be done before the Postal Service could determine the best policy to be followed. He stated also that the Postal Service would have to prove that it had the technical and managerial capabilities to handle the planned National Bulk Mail System¹ before it could begin developing PMS.

¹A system of 21 mechanized bulk mail facilities and 12 service facilities designed to process nonpreferential second-, third-, and fourth-class mail, such as newspapers and parcels.

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Even though the PMS network has not been approved, new facilities are being built in cities designated as Preferential Mail Center (PMC) locations. Because a major objective of the Postal Service is to improve working conditions for its employees, in compliance with the Postal Reorganization Act of 1970 (39 U.S.C. 101), it will build new facilities and modernize existing facilities even if it does not implement PMS.

Postal Service officials told us that the Postal Service would incur 50 percent of the \$1.4 billion estimated cost for constructing and modernizing facilities for the proposed PMS even if it did not implement PMS. The United States Postal Service Board of Governors recently approved the construction of five facilities and the modification of one facility to be designated as PMCs in Madison, Wisconsin; Albany, New York; Little Rock, Arkansas; Jacksonville, Florida; Inglewood, California; and Chicago, Illinois (north suburban facility). The Postal Service contends that any costs it might incur for subsequently installing automated equipment at these facilities would be significantly outweighed by the economies resulting from constructing or modernizing the facilities as soon as possible.

The objectives of the proposed PMS are to

- reduce costs by replacing manual distribution with more economical mechanized operations;
- decrease the time required for processing and delivering letters and provide more consistent delivery of letters;
- improve productivity, quality of service, and efficiency by centralizing processing functions and concentrating management efforts;
- provide the capacity and capability to handle growing volumes of letter mail; and
- provide flexibility to accommodate future customer requirements and changing market conditions.

Under PMS the mail processing operations of about 32,000 post offices will be handled by 181 PMCs. There will also be about 400 transfer post offices (TPOs), each of which will be assigned to a PMC. TPO is another name for a sectional center facility. The TPOs will be merely mail transfer points where mail from surrounding associate post offices will be consolidated for dispatch to the PMC. PMCs will be specifically designed and equipped for processing preferential (letter) mail and will be separate

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from the National Bulk Mail Centers. Postal Service officials told us that the zone improvement plan code (ZIP code) system would not be changed under the PMS.

The Postal Service plans to invest about \$4 billion in the proposed PMS—\$1.9 billion for the LMCSS, \$1.4 billion for facility construction and modernization, and \$0.7 billion for research and development and system integration. The Postal Service estimates that it will save about \$1 billion a year after PMS is implemented, primarily because the use of LMCSS equipment should enable the Postal Service to reduce the number of mail handlers and clerks.

LMCSS uses a bar code which is printed on a letter and by which the letter can be automatically sorted by high-speed code readers and multi-pocket sorting machines at each processing point. Bar coding would eliminate the need for Postal Service employees' continuously resorting mail, and precoding letters by major mailers—which the Postal Service plans to encourage—would diminish the need for originating post offices to bar code mail.

The Cincinnati, Ohio, Post Office is currently testing a prototype LMCSS. International Business Machines, Inc., under contract with the Postal Service, is responsible for testing and integrating the various pieces of equipment for this prototype. The Postal Service will assume complete in-house control of the LMCSS prototype operations after the contract ends on September 30, 1973. Appendix II lists the types of LMCSS equipment and the estimated number of each type planned for installation at PMCs.

Under PMS the Postal Service plans to provide next-day delivery within a PMC service area and second-day delivery within the continental United States for 95 percent of the letter mail. PMS will handle letters, cards, flats, and small parcels and rolls.

Postal Service officials have stated that because airmail needs high-priority handling, it will be processed under current mail-processing methods. However, we believe that airmail volume will probably decline when PMS is fully implemented because airmail service will not be much faster than the 1- and 2-day deliveries planned under PMS.

The Postal Service is currently studying the possibility of using a two-tier (priority and nonpriority first-class mail) system; however, Postal Service officials told us that such a system would not affect the design of PMS or significantly affect the amount of LMCSS equipment needed at each PMC.

FORMULA USED TO SELECT PMC LOCATIONS

The formula the Postal Service used to select PMC locations was developed by International Business Machines, Inc., using a computer model. PMC locations were selected from the 588 Origin-Destination Information System (ODIS) areas. The boundaries of 553 ODIS areas coincide with those of the 553 sectional centers; separate ODIS areas were established for a number of large post offices and for military mail-processing facilities.

PMCs will process mail gathered from nearby ODIS areas that were not selected as locations for PMCs. The selection of PMC locations was based primarily on service and costs to handle the estimated 1981 daily volume of mail. An important consideration was that the volume of mail be sufficient to effectively use LMCSS equipment.

In certain instances the time required to move the mail from its origin to its destination may increase because of the indirect routing and longer distances the mail will move under PMS. Postal Service officials told us that additional PMCs were designated in the Central States and some areas of the South to achieve faster delivery service.

Each PMC location was selected on the basis of the processing requirement of an ODIS area for letter-size mail only, although other types of preferential mail will be processed at PMCs. According to the Postal Service, PMS was designed so that all mail would be processed at PMCs rather than at TPOs or associate post offices. However, a Postal Service official told us that exceptions to this rule would be necessary in certain PMC areas, to achieve 1-day intra-PMC service.

Another requirement for the selection of a PMC location was that a proposed PMC city be a current transportation hub with good area highway connections and be within 168 miles, or 4 hours driving time, from a major airport.

Postal Service officials told us that PMC locations were not selected on the basis of population density or labor market considerations but were selected primarily on the basis of letter-mail volume and the ability to meet delivery standards while holding cost to a minimum. Postal Service officials stated that they believed mail volume closely correlated with population density.

On the basis of area studies to be made by the Postal Service at each PMC location, certain modifications may have to be made to the proposed PMS network. According to a Postal Service official, some factors to be considered when making these area studies will be

- the directional flow of mail, to determine where a particular PMC may operate more efficiently;
- the volume between a PMC and a particular associate post office, to determine whether the volume would justify shipping mail direct between the PMC and the associate post office rather than through a TPO;
- the geographical distance in a PMC service area, to determine whether large service areas, such as in the Central States, would require establishing a mini-PMC system with a lower level of mechanization; and
- labor market conditions in the PMC city.

FLOW OF MAIL UNDER PMS

Under PMS, mail generally will travel from an associate post office to a TPO where it will be sent to a PMC for sorting and processing. Mail for a location in the area served by the PMC generally will be moved from the PMC to a TPO for distribution to the appropriate associate post office for delivery. Mail for a location in an area served by another PMC generally will be moved from the first PMC to the second PMC and then to a TPO for distribution to the appropriate associate post office. Under the current Postal Service mail-processing system, letter mail is sorted and processed at various levels, such as associate post offices, sectional center facilities, and large city post offices.

The former Subcommittee Chairman gave us a list of 50 proposed PMS routings from city of origin to city of destination. He requested that we verify these routings. We determined that 45 routings were correct and that 5 were incorrect, due to either changes in certain PMC locations or reassignments of TPOs to different PMCs. These changes and reassignments took place after the Chairman's request. We gave a detailed schedule of these 50 proposed PMS routings to your staffs during our briefing.

To show how letter mail will move under PMS, we developed information on five routings. The first routing was from Kenosha, Wisconsin, to Waukegan, Illinois, about 15 miles. (See map, app. III.) Letters

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originating in Kenosha will move to the Milwaukee PMC to be processed, sorted, and dispatched to the North Suburban Chicago PMC where they will be sorted and dispatched to the Waukegan Post Office for delivery. Under PMS, these letters will move about 149 miles, compared with 15 miles under the current mail-processing system. Postal Service statistics showed that about 350 letters a day destined for Waukegan originate in Kenosha.

The second routing was from Okeechobee, Florida, to Sebring, Florida, about 35 miles. Letters originating in Okeechobee will be sent to the West Palm Beach TPO for dispatch to the Fort Lauderdale PMC where they will be processed and sorted. (See map, app. IV.) The letters then will be trucked to the Tampa PMC where they will be sorted, processed, and dispatched to the Lakeland TPO for dispatch to the Sebring Post Office for delivery. Under the PMS routing this mail will move about 385 miles.

An Area Mail Processing Program is currently operating in Florida. Under that program, letters travel from Okeechobee, to West Palm Beach, to Lakeland, to Sebring, or 255 miles. The letters will move 130 additional miles under PMS. Postal Service statistics show that about 1,500 letters a day destined for Sebring originate in Okeechobee.

The third routing was from Vicksburg, Mississippi, to Natchez, Mississippi, about 85 miles. Letters originating in Vicksburg will be sent to the Jackson PMC where they will be sorted, processed, and dispatched to Natchez, about 165 miles. (See map, app. V.) An Area Mail Processing Program is also operating in Mississippi. Under that program letters move the same as they will under PMS. Postal Service statistics showed that about 500 letters a day destined for Natchez originate in Vicksburg.

The fourth routing was from Parkersburg, West Virginia, to Marietta, Ohio, about 18 miles. (See map, app. VI.) Under PMS letters will travel from Parkersburg to the Clarksburg, West Virginia, PMC where they will be sorted, processed, and trucked to the Columbus, Ohio, PMC. This PMC will sort the letters and dispatch them to the Athens, Ohio, TPO for dispatch to the Marietta Post Office for delivery. The letters will move about 397 miles under PMS. Postal Service statistics showed that about 3,835 letters a day destined for Marietta originate in Parkersburg.

The fifth routing was from Beaumont, Texas, to Port Arthur, Texas, about 17 miles. Under PMS letters originating in Beaumont will move to the Houston PMC where they will be processed and sorted and then will be returned to the Beaumont TPO for dispatch to Port Arthur for delivery. The overall distance the letters will move is about 203 miles. (See map, app. VII.) Postal Service statistics showed that about 10,300 letters a day destined for Port Arthur originate in Beaumont.

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Postal Service officials told us that, if they could not process letter mail at the Houston PMC without substantially deteriorating service between Beaumont and Port Arthur, the routing would be changed. This change would entail processing and sorting some of the mail at Beaumont and dispatching it directly to Port Arthur.

MODES OF TRANSPORTATION

The following table shows, by average daily weight, the percentage of mail to be moved by the different modes of transportation.

<u>Type of mail</u>	<u>Mode of transportation</u>	<u>Average daily weight</u> (pounds)	<u>Percent of mail by mode</u>	
			<u>Inter-PMC</u>	<u>Total</u>
Inter-PMC	Air	4,097,920	65.7	46
Inter-PMC	Truck	<u>2,138,580</u>	<u>34.3</u>	<u>24</u>
		6,236,500	<u>100.0</u>	70
Intra-PMC	Truck	<u>2,664,243</u>		<u>30</u>
Total		<u>8,900,743</u>		<u>100</u>

As shown above, 46 percent of the letter mail will be transported by air. A postal official stated that currently about 30 to 35 percent of the preferential mail was going by air on a space-available basis. Accordingly, the volume of letter mail transported by air will increase by 11 to 16 percent. The Postal Service has estimated that PMS will increase transportation costs by about \$45 million a year.

Current air-taxi service--local transportation of mail by air where there is no scheduled airline service--costs about 80 cents a ton-mile, whereas scheduled airline service costs about 11 cents a ton-mile. Therefore, if the Postal Service uses more air taxis to meet PMS service standards, there will be a cost increase of about 69 cents a ton-mile.

DISTANCES BETWEEN CERTAIN PMCs AND TPOs

The following table shows the longest, median, mean, and shortest distances between a PMC and its associate TPO.

	<u>From</u> <u>PMC</u>	<u>To</u> <u>TPO</u>	<u>Miles</u>
Longest			
Including Alaska	Seattle, Wash.	Ketchikan, Alaska	785
Excluding Alaska	Cheyenne, Wyo.	Worland, Wyo.	299
Median	Buffalo, N.Y.	Jamestown, N.Y.	67
	Montgomery, Ala.	Opelika, Ala.	67
	Birmingham, Ala.	Gadsden, Ala.	67
Mean	Including Alaska		80
	Excluding Alaska		76
Shortest	Long Island Ter- minal, N.Y.	Long Island City, N.Y.	3
	Van Nuys, Calif.	North Hollywood, Calif.	3
	San Francisco, Calif.	San Francisco Military, Calif.	3
	South Boston Postal Annex, Mass.	Boston, Mass.	-
	Seattle, Wash.	Seattle Military, Wash.	-

A Postal Service official told us that the Boston TPO, located next to its PMC, and the Seattle Military mail-processing facility, located across the street from its PMC, will more than likely not be used as TPOs. He told us that the mail would probably be sent directly to each of these PMCs rather than sent to the TPO and then around the corner or across the street to the PMC.

Postal Service officials told us that they planned to make every effort to make sure that mail delivery service was improved or at least maintained at its current level. According to those officials, mini-PMCs might have to be established to accomplish this objective. These centers would have a lower level of mechanization than PMCs. They told us also that a mini-PMC might be established in the Cheyenne, Wyoming, area to reduce the long distances that mail would have to travel.

POPULATION TO BE SERVED AND
AVERAGE DAILY VOLUME TO BE HANDLED
BY CERTAIN PMCs

The 30 largest PMCs, by volume of mail to be handled, will serve about 33 percent of the population and will handle about 45 percent of the estimated 1981 average daily volume. The following table shows population data for certain PMC service areas.

	<u>PMC</u>	<u>Population to be served (note a)</u>
Largest	South Boston Postal Annex, Mass.	3,655,000
	Chicago, Ill.	3,599,600
Median	Albuquerque, N.M.	929,000
Mean		1,073,993
Smallest	Medford, Oreg.	182,400
	Reno, Nev.	179,600

^aBased on 1969 data, the most current data available.

PMS will handle approximately 310 million pieces of letter mail a day. The following table shows the estimated 1981 average daily volume to be handled by certain PMCs.

	<u>PMC</u>	<u>1981 average daily volume</u>
Largest	Chicago, Ill.	8,968,712
	Los Angeles, Calif.	7,064,684
Median	Orlando, Fla.	1,246,056
Mean		1,710,894
Smallest	Great Falls, Mont.	280,368
	Medford, Oreg.	246,384

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Because the New York metropolitan area will be served by five PMCs, that area is not listed as the largest population area to be served by a PMC. These five PMCs will handle approximately 22.4 million pieces of letter mail a day.

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We have discussed this information with Postal Service officials who generally agreed with the information presented. As agreed by your office, we are sending copies of this report to Congressmen Robert N. C. Nix and H. R. Gross. We do not plan to distribute this report further unless you agree or public announcement is made of its contents.

Sincerely yours,



Comptroller General
of the United States

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U.S. House of Representatives

SUBCOMMITTEE ON POSTAL FACILITIES AND MAIL

OF THE

COMMITTEE ON POST OFFICE AND CIVIL SERVICE

B-345(B) RAYBURN HOUSE OFFICE BUILDING

Washington, D.C. 20515

January 9, 1973

Honorable Elmer B. Staats
Comptroller General of the United
States
General Accounting Office
441 C Street, N.W.
Washington, D.C. 20548

Dear General:

I would like to have a General Accounting Office study done of the postal planning for a Preferential Mail System consisting of at least 177 facilities at a cost of approximately four billion dollars.

Would you please consider these questions in your study and forward copies of such a study to myself and Congressman Gross.

We would like to know:

(1) What is the largest population area to be served by such a facility, the smallest and the median population to be served by such facilities?

(2) What is the greatest distance between facilities, the smallest and the median distance between such facilities?

(3) What is the greatest planned for volume at any of the facilities, the smallest volume and the median volume?

(4) What is the greatest, the smallest and the median geographical areas served by various facilities within the system?

(5) What is the formula by which sites were chosen by the Postal Service? Is the formula a combination of population, area volume and labor market area or any single factor? What is the principal consideration?

Hon. Elmer B. Staats
January 9, 1973
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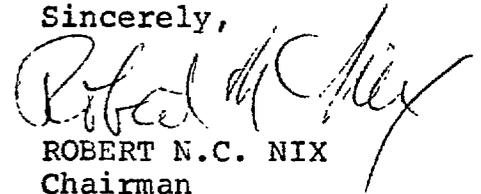
(6) What is the principal mode of transportation planned for movement of Preferential Mail? What is the percentage of Preferential Mail which will be transported by various principal modes of transportation?

We would also like to verify as correct or incorrect the following routings. (see attached list)

I sincerely appreciate your past efforts on behalf of the Subcommittee. I would hope that you would be able to have this report in our hands by March 9, 1973.

Thank you.

Sincerely,

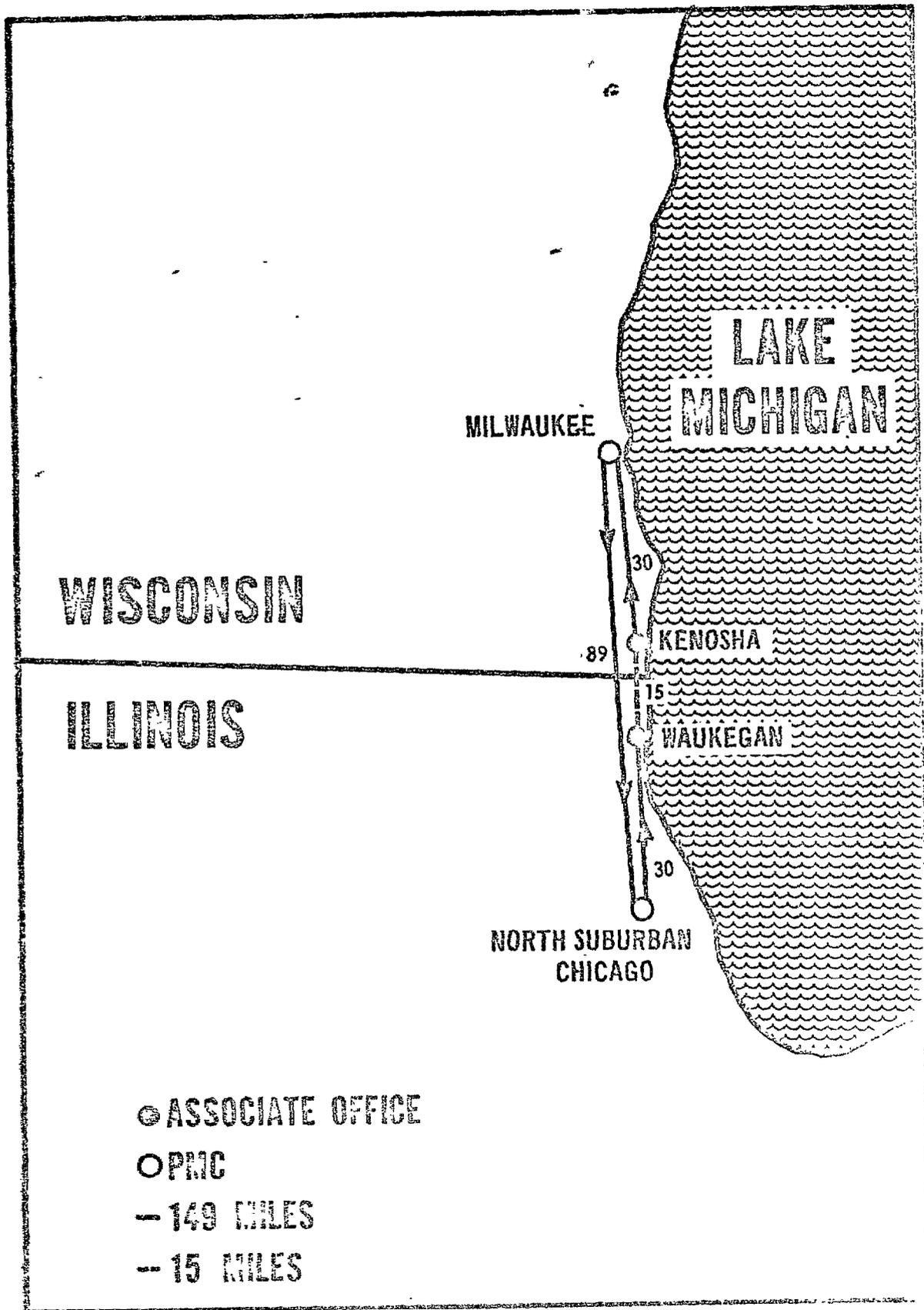


ROBERT N.C. NIX
Chairman

RNCN:dh

TYPES OF LMCSS EQUIPMENT AND
ESTIMATED NUMBER OF EACH TYPE PLANNED
FOR INSTALLATION AT PMCs

<u>Type</u>	<u>Number</u>
Air cullers	386
Facer-cancelers	735
Input units	1,357
Advanced optical character readers	152
Optical character readers	86
Manual encoders	5,632
Code readers	1,384
Letter-sorting machines	692
Carrier sequencers	2,430
Computers	388



MILWAUKEE

LAKE
MICHIGAN

WISCONSIN

ILLINOIS

89

KENOSHA

WAUKEGAN

30

NORTH SUBURBAN
CHICAGO

● ASSOCIATE OFFICE

○ OPAC

— 149 MILES

— 15 MILES

